

## EXECUTIVE SUMMARY

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# Business models, consumer experiences and regulation of retirement villages



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# Executive summary

- According to a national overview of the retirement village sector, in 2014 approximately 184,000 Australians lived in retirement villages, equivalent to 5.7 per cent of the population aged 65 and over. This rate is projected to increase to 7.5 per cent by 2025 (Grant Thornton 2014).
- The analysis in this report indicates that living in retirement villages saves the health care system \$2.16 billion, with \$1.98 billion of those savings achieved by postponing residents' entry into government funded aged care facilities.
- This project looks at the appeal of retirement villages, as well as the problems that can arise. It draws on a survey of 855 residents in New South Wales (NSW), Queensland and Tasmania, 36 interviews with residents, and 10 interviews with professionals such as lawyers and village managers.
- A significant attractor to retirement villages was the opportunity to join a community formed through informal friendships. Affordability was an important consideration.
- Consumer complaints have included mis-selling, excessive exit fees and unfair buy-back arrangements (Greiner 2018). The survey conducted for this report shows fewer concerns, and many residents expressed positive views about exit fees. However, 25% of respondents either could not understand exit fees or experienced difficulties understanding exit fees. Two respondents felt trapped in a village, and one had been bullied.
- Most residents sought legal advice but did not see this as helpful. Few of the respondents sought advice from families.

- **There is scope for differentiation and innovation within the exit fee model. Some villages offer residents a share in capital growth (although this has led to disputes). Subsidies from government or philanthropic organisations have made social experiments possible, including congregate living in a rental village and a proposed initiative to provide housing for older women with lower savings and income through targeted government support.**
- **Retirement villages could be made more affordable through a financial partnership with government with funds directed at low-income groups through care packages and public housing rather than subsidising wealthy Australians, companies and investors.**

## **Key findings**

7.5 per cent of older Australians are expected to live in retirement villages by 2025 (Grant Thornton 2014). This housing option has health benefits for residents and may reduce the growing pressures on health services caused by an ageing population. The sector does not currently receive direct funding from Commonwealth or state and territory governments, although some local councils have set aside land for new development. This noted, state and territory governments both establish and maintain regulation, and the Australian Government invests in pilot projects that seek to assist low-income groups - including older women (Retirement Living Council 2022).

The project drew on a survey of 855 residents in NSW, Queensland and Tasmania, interviews with 36 residents and also interviews with 10 professionals and advocates for social justice. We investigated four broad questions:

1. What are the benefits and disadvantages of community living?
2. What is the consumer experience, particularly regarding contracts, access to services, and community relations? How do consumers experience difficulties?
3. What business models are employed? What are the current challenges?
4. How can the Australian Government help the sector to expand? How can it diversify provision and support consumer choice?

### **Question 1: What are the benefits and disadvantages of community living?**

There are push factors such as loneliness and ill health, and many pull factors such as the facilities and natural environment, and affordability made possible through the exit or deferred management fee. The strongest attractor was belonging to a community based on informal friendships. There were also, however, negative aspects including being subject to ageism through the perception of segregation from younger age groups.

Table 1: Top 10 most common facilities available at survey respondents' retirement village

	NSW	QLD*	TAS*	Aust
	%	%	%	%
Community room(s)	96	99	91	97
Library(s)	93	96	75	93
A maintained garden(s) (e.g. by a gardener)	93	93	82	92
Organised social activities (e.g. bingo, dancing, movie night)	85	90	76	86
Swimming pool(s)	78	96	29	81
Organised social outings (e.g. short day trip)	67	69	59	67
Other services (e.g. hairdresser)	69	71	29	67
Craft room(s) and materials	63	67	46	63
Private community/meeting room(s) that I can book for private functions	65	62	60	63
Gym	65	68	22	62

\* Unweighted results.

Source: Survey.

## Question 2: What is the consumer experience, particularly regarding contracts, access to services, and community relations? How do consumers experience difficulties?

Since the 1970s, complaints have been made about the consumer experience in retirement villages. Issues with consumer experience were reviewed recently by a television documentary (ABC 2017). Complaints include mis-selling, excessive exit fees and unfair buy-back arrangements. Legislation passed during the 1990s and in the last 10 years has to some extent addressed the problems. Contributory causes are inadequate provision of legal advice, and a hard line taken by operators under pressure to make profits in a competitive market. The research approach acknowledges the complexity of different stakeholder views. A lawyer, for example, noted that consumers are warned about risks, but do not always employ due diligence:

Look, it's a very difficult space, but I think the consumer protection is inherently a difficult space. They want one thing, they want to buy a load of goods on the one hand, and they really don't want to do their due diligence, but when it's not meeting their expectations on the other, they want to complain about it. How do I approach it as a lawyer? I make sure my client understands, as best as possible, meaningfully, what it is they're buying into.

Although some residents have bad experiences and even feel trapped in villages, surveys indicate that most are happy. Although this may change when they seek to leave.

Table 2: Length of residence in survey respondents' current retirement village

	NSW	QLD*	TAS*	Aust
	%	%	%	%
3 months or less	0	0	4	1
4 months to 1 year	5	3	4	4
Over 1 year, but less than 2 years	5	6	13	6
Over 2 years, but less than 3 years	8	3	22	7
Over 3 years, but less than 4 years	6	5	13	6
4 years or over	76	84	43	77

\* Unweighted results.

Source: Survey.

Table 3: Resident satisfaction

Study	n	Response
Stimson 2002 The Retirement Village Industry in Australia	985	75% 'met expectations'
Petersen et al. 2017 Queensland Retirement Village Survey	312	82% 'met expectations'
McDougall and Barrie 2016 South Australia Retirement Village Survey	2,154	84% satisfied
Greiner 2017 Inquiry into the NSW Retirement Village Sector	286	61% felt pre-2013 marketing dishonest
Bradfield et al. 2019 National Survey (Qualtrics)	162	54% 'met expectations'
Malta et al. 2021 Victoria Retirement Villages Survey	950	77% satisfied
Travers et al. 2021 Retirement Villages Survey (Tas, Qld and NSW)	855	72% 'met expectations'

Source: Authors.

### Question 3: What business models are employed? What are the current challenges?

Industry insiders believe that the business model is not well understood by government or critics. There is only one model—the exit fee or deferred management fee—that allows residents to live in properties at a reduced entry price. Variations within the model allow different types of tenure and levels of service but no alternative models have been developed. There is an alternative means of renting buildings in Manufactured Home Estates, often confusingly also called villages. This type of housing offers fewer legal protections, but is growing due to government rental support. There are also alternative purchase arrangements that allow a share in capital gains. In addition, some experimental and social initiatives are co-funded in the not-for-profit sector. These include rental congregate villages in which residents eat together to encourage stronger communities.

### Question 4: How can the Australian Government help the sector to expand? How can it diversify provision and support consumer choice?

There are different means of providing indirect support, including through planning policies and establishing regulation. However, there has so far been limited support for expansion. Direct support and investment would arguably be needed for villages to house more than 10 per cent of older Australians.

## Policy development options

Howe (2003) noted that the growth of retirement villages amounted to policy by default. Governments were happy for the sector to grow without the need for financial support. Today, state and territory governments have been asked to take a larger role through establishing and maintaining regulation. Despite the fact most residents are satisfied, this report demonstrates that more effort and investment is required, such as by funding a specialist ombudsman.

More generally, we have questioned the assumption that government should financially subsidise or support villages. Opportunities for co-funding new initiatives that draw on the experiences of the aged care sectors in the United States of America (USA) and Europe are explored in this report. The challenge lies in offering an alternative to independent living in villages at scale rather than a pilot or experimental scheme. Limited support from Commonwealth, and state and territory governments would arguably be best used in supporting lower-income and vulnerable groups through home-care packages and public housing rather than subsidising wealthier home owners to live in villages.



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